

Message Text

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ORIGIN EB-07

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DRAFTED BY EB/IFD/OMA:BGCROWE/TREASURY:WMCFADDEN

APPROVED BY EB/IFD/OMA:RJRYAN

ARA/APU - MR. SMITH

RA - MR. FISHLOW

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FM SECSTATE WASHDC

TO AMEMBASSY BUENOS AIRES

C O N F I D E N T I A L STATE 178876

E.O. 11652: GDS

TAGS: EFIN, AR

SUBJECT: ARGENTINA'S EXTERNAL DEBT SITUATION

REF: BUENOS AIRES 4783; A-94

1. EMBASSY AWARE WASHINGTON FOLLOWING ARGENTINE EXTERNAL DEBT SITUATION FOR PAST SEVERAL MONTHS. LACK OF HARD DATA TO SUBSTANTIATE AND ILLUMINATE EXTENT OF PROBLEM MAKING ASSESSMENT ALMOST IMPOSSIBLE. IN MEANTIME NEWSPAPER ACCOUNT OF DETERIORATING BALANCE OF TRADE, DECLINING RESERVES, HYPER INFLATION AND EXTRAORDINARILY LARGE DEBT PAYMENT DUE IN 1975 CONTINUES TO RAISE CONCERN HERE.

2. APPRECIATE EMBASSY'S REFTTEL AND LOOK FORWARD TO DETAILED ASSESSMENT. IN MEANTIME, REQUEST EMBASSY PROVIDE, AS AVAILABLE, RELEVANT HARD DATA, INCLUDING UPDATE OF REPAIR.

3- GOA OFFICIALS MAY SEEK EMBASSY REACTION TO THE POSSI-
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BILITY OF RESCHEDULING PUBLIC DEBT OWED TO THE USG. IN

SUCH EVENT EMBASSY SHOULD REMIND GOA THAT WHERE DEBT RENEGOTIATION IS CONSIDERED APPROPRIATE, CREDITOR COUNTRIES USE A MULTILATERAL FRAMEWORK AND INSIST ON THE PRINCIPLE OF EQUALITY AMONG ALL BILATERAL CREDITORS. DEBT RELIEF IS, MOREOVER, A "LAST RESORT" OPTION, TO BE CONSIDERED ONLY AFTER DEBTOR HAS EXHAUSTED RECOURSE TO IMF FACILITIES AND OTHER SOURCES OF ALTERNATE FINANCING.

4. PRESENT U.S. DEBT POLICY IS BASED ON RESTRICTING USE OF DEBT RELIEF. THE USG DOES NOT PERCEIVE DEBT RESCHEDULING AS A POLICY INSTRUMENT FOR PROVIDING AID. THE SENSE OF CONGRESS REGARDING DEBT RELIEF IS HOSTILE, AND CONGRESS HAS ALREADY MOVED TO LIMIT EXECUTIVE AUTHORITY IN THIS AREA. UNLESS THE INCIDENCE OF DEBT RELIEF IS STRICTLY LIMITED, THERE WILL ALMOST CERTAINLY BE MORE CONGRESSIONAL RESTRAINTS IMPOSED.

5. IN THE CASE OF ARGENTINA, USG BELIEVES THAT THE GOA HAS THE WHEREWITHAL TO RETURN ECONOMY TO EQUILIBRIUM SITUATION. GOA MUST MAKE SOME DIFFICULT CHOICES REGARDING ECONOMIC POLICIES, BUT ONLY GOA CAN MAKE THOSE DECISIONS. THE USG DOES NOT VIEW DEBT RELIEF AS A MEANS OF POSTPONING SUCH DECISIONS.

6. THE USG THEREFORE CONSIDERS IT PREMATURE FOR CREDITORS TO RULE ON ARGENTINE ELIGIBILITY FOR MULTILATERAL RESCHEDULING AT THIS TIME. IN NO EVENT SHOULD THE EMBASSY LEAVE THE GOA WITH THE IDEA THAT THE USG VIEWS DEBT RESCHEDULING AS A VIABLE OPTION AT THIS TIME. INGERSOLL

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